

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 OMB-01 /048 W

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R 302017Z AUG 76

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 6901

LIMITED OFFICIAL USE BUENOS AIRES 5669

E.O. 11652: N/A

TAGS: EFIN, AR

SUBJECT: GOA BUDGET DEFICIT TRENDS

PASS TREASURY

1. THE GOA BUDGET DEFICIT HAS DECLINED STEADILY AS A PERCENTAGE OF EXPENDITURES (EXCLUDING DEBT AMORTIZATION) SINCE THE NEW GOVERNMENT ASSUMED POWER IN MARCH. THE MONTHLY DEFICITS AND DEFICIT/EXPENDITURE PERCENTAGES HAVE SHOWN THE FOLLOWING DOWNWARD TREND: MARCH - 62.7 BILLION PESOS (81 PERCENT); APRIL - 44.4 BILLION PESOS (66 PERCENT) MAY - 46.9 BILLION PESOS (64 PERCENT) JUN - 37.2 BILLION PESOS (55 PERCENT) JULY - 39.9 BILLION PESOS (48 PERCENT)

2. CENTRAL BANK MONETARY EMISSIONS TO COVER THE BUDGET DEFICIT AND DEBT AMORTIZATION HAVE SHOWN AN OPPOSITE TREND. THESE EMISSIONS AND THEIR PERCENTAGE OF EXPENDITURES HAVE INCREASED AS FOLLOWS: MARCH - 53.9 BILLION PESOS (67.4 PERCENT) APRIL - 10.6 BILLION PESOS (14.5 PERCENT); MAY - 14.3 BILLION PESOS (19.2 PERCENT); JUNE - 30.8 BILLION PESOS (44.7 PERCENT); JULY - 50.3 BILLION PESOS (60.2 PERCENT).

3. COMMENT: THE TREND SHOWN IN PARA 2 REFLECTS THE INCREASED DIFFICULTY IN PUBLIC BORROWING TO FINANCE THE DEFICIT. AT
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BEGINNING OF THE PERIOD, INVESTORS FOUND TREASURY BONDS AND

BILLS ATTRACTIVE INVESTMENTS BECAUSE IN A DECELERATING INFLATION-
ARY ENVIRONMENT THEY OFFERED HIGH REAL RATES OF RETURN AND
BECAUSE THE YIELD ON BOND COULD BE MAGNIFIED BY BORROWING WITH
THE BONDS AS SECURITY. MORE RECENTLY, HOWEVER, THESE FINANCIAL
INSTRUMENTS HAVE BECOME LESS PROMISING AS INFLATIONARY EXPECTATIONS
HAVE RISEN (AT LEAST IN THE CASE OF TREASURY BILLS, MANY BELIEVE
THAT REAL RATE OF RETURN MAY NOW BE NEGATIVE).
CHAPLIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGET DEFICITS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BUENOS05669
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760329-0835
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976088/aaaaagic.tel
Line Count: 69
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 14 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 JUL 2004 by ElyME>; APPROVED <22 OCT 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOA BUDGET DEFICIT TRENDS PASS TREASURY
TAGS: EFIN, AR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006